

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6819**

**BILL NUMBER: HB 1877**

**DATE PREPARED:** Jan 29, 1999

**BILL AMENDED:**

**SUBJECT:** Education income tax credits.

**FISCAL ANALYST:** Diane Powers

**PHONE NUMBER:** 232-9853

**FUNDS AFFECTED:** X  
X

**GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides income tax credits related to elementary and secondary education for the following expenditures: (1) Charitable contributions to foundations that provide tuition scholarships for nonpublic schools and home school students. (2) Donations to public schools for certain academic purposes. (3) Expenditures for dependents who attend nonpublic schools. (4) Expenditures for the home schooling of dependents. (5) Expenditures for out of school education of dependents who attend public schools. This bill phases in the amount of each type of credit over a three year period.

**Effective Date:** January 1, 1999 (retroactive).

**Explanation of State Expenditures:** The Department of Revenue will have an increase in administrative expenses associated with changing tax forms, instructions, computer programs for these five new tax credits as they are being phase in over a three year time period.

**Explanation of State Revenues:** This bill creates five new income tax credits related to contributions made for educational expenses. The bill provides that if one of these credits is held to be invalid, the other credits would also be void. These credits are phase in over a three year time period beginning January 1, 1999 with the permanent levels becoming effective for tax years beginning January 1, 2001. The tax credits will affect revenue collections beginning in FY 2000 and years after. The tax credits may not exceed the taxpayer's tax liability. A summary of the five credits, the eligible contributions and amount of the credits over the phase in period are outlined below.

<b>Tax Credit</b>	<b>Tax Year</b>	<b>Max Single Taxpayer</b>	<b>Max Joint Tax Return</b>	<b>Max Corp. Taxpayer</b>
Sect. 5.2 Contributions to school scholarship organization- made to an organization to provide scholarships for nonpublic school and home school expenses; no direct benefit to taxpayer's dependent.	1999	\$200	\$400	\$200
	2000	300	600	300
	2001	500	1,000	500
Sect. 5.3 Contributions to public schools (K-12)- made to a school for a qualified school expense; can not be designated for direct benefit of taxpayer's dependent.	1999	50	100	50
	2000	75	150	75
	2001	100	200	100
Sect. 5.4 Non public school expenses- expenses for tuition, academic instruction in core curriculum areas, and transportation.	1999	\$400 per dependent		NA
	2000	\$700 per dependent		NA
	2001	\$1,000 per dependent		NA
Sect. 5.5 Public school (K-12)/Home school expenses- expenses for academic instruction and instructional materials in core curriculum areas.	1999	\$400 per dependent		NA
	2000	\$700 per dependent		NA
	2001	\$1,000 per dependent		NA
Sect. 5.6 Public school academic instruction- expenses for instruction in core curriculum areas outside a regular school year or school day.	1999	\$150 per dependent		NA
	2000	\$350 per dependent		NA
	2001	\$1,000 per dependent		NA

It is estimated that these tax credits could reduce individual and corporate income tax collections by the following amounts reported in the table below. However the cumulative impact of these tax credits is difficult to estimate since a taxpayer may take more than one of these tax credits but these credits can not exceed a taxpayer's tax liability. Individual and corporate income taxes are deposited in the General Fund and the Property Tax Replacement Fund.

<b>Revenue Loss from each Tax Credit (millions)</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>
Sect. 5.2 Contributions to scholarship foundations	1.0	2.2	4.0
Sect. 5.3 Contributions to public schools	6.0	6.5	7.0
Sect. 5.4 Nonpublic school expenses	42.0	64.9	83.5
Sect. 5.5 Public/Home school expenses	50.3	53.7	57.2
Sect. 5.6 Public academic instructional expenses	6.5	12.0	16.4

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** If these tax credits encourage more contributions to public schools, local school corporations revenues may increase.

**State Agencies Affected:** Department of Revenue.

**Local Agencies Affected:** School corporations.

**Information Sources:** Department of Revenue; Department of Education.